FISCAL NOTE

Bill #: HB0707 **Title:** State employee benefits for reductions in force

Primary Sponsor: Cohenour, J **Status:** As Introduced

Sponsor signature Date Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY 2004 Difference	FY 2005 Difference
Expenditures:		
General Fund	$3,520,148	$4,477,546
State Special Revenue	$520,656	$1,281,503
Federal Special Revenue	$231,403	$569,557
Other	$6,904,426	$10,560,195
Revenue:		
General Fund	$0	$0
Net Impact on General Fund Balance:	($3,520,148)	($5,794,647)

- ☐ Significant Local Gov. Impact
- ☐ Included in the Executive Budget
- ☐ Dedicated Revenue Form Attached
- ☐ Technical Concerns
- ☒ Significant Long-Term Impacts
- ☒ Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

Public Employees Retirement System

1. This is the only provision being considered. If other provisions are enacted, the cost associated with this provision may be different.
2. The total cost to purchase the service provided in this proposal is $24,072,827.
3. The proposed bill will only be available to state and university employees who are members of the Public Employees' Retirement System.
4. More than 3900 current active members will be eligible to take advantage of the benefits provided by this proposal. Of those, 1218 will take advantage of the proposal. Approximately 350 state employees retire each year, so about 700 state employees would retire even without this proposal. Over the two-year window, it is assumed that about 500 additional members will retire. This represents about 13 percent of those eligible. Additional members may become eligible before June 30, 2005.
5. Any service a member has already purchased, which limits the service that may be purchased for a member eligible under this proposal may not be refunded.
6. Service purchase contracts will remain in force, except upon termination of employment by the member.

7. The cost of purchasing service under this proposal is based on the most recent actuarial valuation, and the employer will pay the full actuarial cost.
8. The proposal provides for the state to purchase up to three years of additional service for a member; however, many members are not eligible to receive three years of additional service, because they have made previous purchases or they have less than 15 years of membership service. For this fiscal note, it is assumed the state will purchase the maximum amount for which a member is eligible or three years, whichever is less.
9. Based on the above assumptions, all members will be eligible to receive a combined total of 2,559 years of additional service at an average cost per year of $9,406, for a total cost of $24,072,827. Assuming 69 percent of the cost will be paid from non-general fund sources and 31 percent from the general fund, the cost to the general fund is estimated to be $7,462,576.
10. For this fiscal note it is assumed the state agencies will pay the full cost when due over the next biennium; however, they may make payments over a 10-year period.
11. For a majority of members, their benefit will be maximized if they wait as long as possible to retire. Therefore 40 percent of the cost is assigned to FY 2004 and 60 percent to FY 2005.

Teacher's Retirement System

12. Between July 1, 2003 and July 1, 2005 there will be 747 members of the Teachers' Retirement System eligible to receive one or more of the termination incentives provided for in HB 707: state agencies, 55 members and universities, 692 TRS members.
13. Approximately 18 percent of the state TRS members and 14 percent of the university TRS members are currently purchasing service. Based on current experience, assume 10 state agency members and 99 university members will be eligible to purchase three years of additional service during this window.
14. Section 2 requires the employer to pay the cost of purchasing up to three years of additional service that the member is eligible to purchase under the provisions of Title 19, Chapter 20. Based on current experience, assume the average cost per year of service will not exceed $4,644 for state employees and $4,166 for university employees.
15. Costs will be spread evenly over the window of July 1, 2003 through July 1, 2005.
16. Assume 100 percent of those eligible to purchase service and who are also eligible to retire will terminate during the eligibility window of HB 707. All agencies will pay the cost to purchase service over 10 years and interest will be charged at 8.0 percent.
17. The provisions of this act do not supersede any contracts executed by a TRS member who has signed an irrevocable election to purchase additional service in compliance with §19-20-415, MCA and Section 401(h)(2) of the Internal Revenue Code. Members who have signed a contract would only be eligible to have their employer pay for the purchase of additional service to the extent that there is a balance due at the time of termination.
18. TRS members who have purchased additional service and been credited with the additional service would not be eligible to receive a refund of the amount paid to TRS or to receive any cash payments directly from their employer.
19. The cost estimates provided by the Teachers' Retirement System are based on the assets and member data used in the July 1, 2002, actuarial valuation. They do not include any gains or losses from asset or liability experience after that date. The assumptions and methods are the same as those used in the July 1, 2002, actuarial valuation as shown in Appendix A of that report.

Department of Administration

20. The population of affected employees includes individuals eligible for normal and early retirement, who exercise their option to voluntarily retire between July 1, 2003 and July 1, 2005, or who are involuntarily RIF'd during this same time period. For purposes of this fiscal note, the population of eligible employees

was identified from personal services data on the SABHRS system as of January 2003. Employees not eligible for PERS or TRS have been excluded from this data. An analysis of the employees' ages, and years of service, as of both July 2003 and July 2005 (data aged out for two years) shows that as of July 2003, 3,865 employees would be eligible for the incentive, and throughout the 2005 biennium an additional 1,001 employees will gain eligibility for normal or early retirement. Employees' ages as of the date of the SABHRS data extract were assumed to be their age as of July 1, 2003. A simple average of the number of employees estimated to be eligible for retirement at July 1, 2003 and at July 1, 2005 was used as the total average population of employees that would be eligible for this incentive throughout the 2005 biennium. This population was stratified into four groups and the following assumptions were made regarding the total number of employees from each group.

Group	Description of Group-service yrs.	Number of Emp.	Avg. salary/hr. per Emp.	Avg. Sick Hours
One	All Emp. with 30+ years service	331	$22.71	507
Two	50% of Emp. with 25-29 yrs service	783	$21.17	529
Three	All Emp. with less than 25 yrs service that are 65 years of age	169	$15.40	376
Four	10% of remainder eligible for early retire.	3,083	$17.56	493

Estimated Count to Retire:	Group One	331 employees
	Group Two	392 employees
	Group Three	169 employees
	Group Four	308 employees
	Total	1,200 employees select retirement incentive

21. It is assumed that all employees are covered by the Traditional health insurance plan. The state share insurance contribution portion, for health and dental coverage only, is $360 in calendar year 2003; in calendar year 2004 it is estimated to be $404; and for calendar year 2005 it is estimated to be $454 ($6 of the 2003 state share contribution of $366 goes toward basic life insurance and is not included as part of the insurance benefit in this fiscal note). The "blended" state share contribution rate for FY 2004 is $382 and for FY 2005 is $429. The insurance rate increases 12 percent in each subsequent year.
22. It is assumed that some individuals will become employed in other positions that provide health benefits before the 36 months of available coverage, under Section 1 of the bill, have expired. For purposes of this fiscal note, 34 months is assumed to be the average length of time health benefits are provided to retired employees. It is estimated that 40 percent of the total 1,200 retiring employees will terminate on the first day of FY 2004 and the remaining 60 percent will terminate on the first day of FY 2005. Total insurance costs per fiscal year are calculated as follows:

    Total # Retiring Employees x (insurance rate/mo in each covered year) x (# of months cover in year)

FY 2004	480 x ($382 x 12 mos.) = $2,200,320
FY 2005	1,200 x ($429 x 12 mos.) = $6,177,600
FY 2006	480 x ($480 x 10 mos.) + 720 x ($480 x 12 mos.) = $6,451,200
FY 2007	720 x ($538 x 10 mos.) = $3,873,600

23. For purposes of this fiscal note it is assumed that all retirees will make the determination to designate the full cash value of sick leave for deposit into a medical savings account, as provided in Section 3, Sub-section (2) of the bill. The cash value of converted sick leave is calculated based on the average hourly salary rate for each group of employees, and the average number of sick leave hours available as of the

date the data query was run (see assumption #1). It is assumed that 40 percent of the total participating employees retire in FY 2004 and 60 percent retire in FY 2005. The additional cost of the converted sick leave is 75 percent of the full cash value.

	Total Emp.	# Retiring in FY 2004	# Retiring in FY 2005	Total Cost in FY 2004	Total Cost in FY 2005
Group One	331	132	199	$1,143,337	$1,715,006
Group Two	392	157	235	1,316,994	1,975,491
Group Three	169	68	101	293,573	440,360
Group Four	308	123	185	799,914	1,199,871
Total	1,200	480	720	$3,553,818	$5,330,728

24. Positions vacated by retiring employees remain vacant for 8 weeks before being filled at a salary that is 7.5 percent less than the retirees' salaries.
25. Funding is prorated to its source based on FYE 2002 total state personal services extracted from SABHRS:

SABHRS:	GF	37 percent
	SSR	36 percent
	FF	16 percent
	Other	11 percent

FISCAL IMPACT:

	FY 2004 Difference	FY 2005 Difference
Public Employee's Retirement System		
Expenditures:		
Benefits	$9,629,130	$14,443,696
Funding of Expenditures:		
General Fund (01)	$2,985,030	$4,477,546
Other (Non-General Fund-includes 02 & 03 funds)	$6,644,100	$9,966,151
TOTAL	$9,629,130	$14,443,696
Teacher's Retirement System		
Expenditures:		
Benefits	$101,237	$202,474
Funding of Expenditures:		
Other - Pension Trust	$101,237	$202,474
Department of Administration		
Expenditures:		
Personal Services	$1,446,266	$3,559,731
Funding of Expenditures:		
General Fund (01)	535,118	1,317,101
State Special Revenue (02)	520,656	1,281,503
Federal Special Revenue (03)	231,403	569,557
Other	159,089	391,570
TOTAL	$1,446,266	$3,559,731

Totals

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):		
General Fund (01)	($3,520,148)	($5,794,647)
State Special Revenue (02)	($520,656)	($1,281,503)
Federal Special Revenue (03)	($231,403)	($569,557)
Other (Non-General Fund-includes 02 & 03 funds)	($6,644,100)	($9,966,150)
Other – Pension Trust	($101,237)	($202,474)
Other	($159,089)	($391,570)
TOTAL	($11,176,633)	($18,205,901)

LONG-RANGE IMPACTS:

Public Employees Retirement System

1. If state agencies take advantage of paying the cost over 10 years the annual payments for the general fund expenditure ($7,462,576) will be $1,029,763 including interest. The total cost will include the principle of $7,462,576 plus interest of $2,835,052.
2. The annual payments for the non-general fund expenditure ($16,610,251) will be $2,292,053 including interest. The total cost will include the principle of $16,610,251 plus interest of $6,310,279.
3. Total interest if all payments are made over 10 years will be $9,145,331. The total cost over 10 years including interest will be $33,218,203.

Teacher's Retirement System

4. State agencies would continue to pay the cost to purchase up to three years of additional service under the Teachers' Retirement System for up to 10 years following termination of an eligible employee.

Department of Administration

5. As indicated in assumptions above, the health insurance benefit will cost $6,451,200 in FY 2006 and $3,873,600 in FY 2007. The general fund portion of this cost in each of the years is $2,386,944 and $1,433,232 respectively. Salary savings will continue into subsequent fiscal years.